

S
351.7232
L72Lssa
1995



Office of the Legislative Auditor

State of Montana

Report to the Legislature

May 1995

Limited Scope Study of Accounting and Management Support Division's Comprehensive Annual Financial Report Preparation Procedures

Department of Administration

STATE DOCUMENTS COLLECTION

JAN 1 2002

MONTANA STATE LIBRARY
1515 E. 6th AVE
HELENA, MONTANA 59601

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
PO Box 201705
Helena, Montana 59620-1705

95SP-63



LIMITED SCOPE STUDY

This limited scope study was performed to analyze the preparation procedures used by the Accounting and Management Support Division of the Department of Administration for the state's Comprehensive Annual Financial Report (CAFR). In this study we also reviewed the accuracy of information on the Statewide Budgeting and Accounting System and the relationship of state agencies that issue financial statements in accordance with generally accepted accounting principles to the CAFR process.

Office of the Legislative Auditor
Room 135 State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Greg Jergeson, Vice Chairman
Senator Sue Bartlett
Senator Reiny Jabs
Senator Tom Keating
Senator Ken Miller
Senator Linda Nelson

Representative Ernest Bergsagel, Chairman
Representative Beverly Barnhart
Representative A. R. "Toni" Hagener
Representative Bob Keenan
Representative Robert Pavlovich
Representative Bruce Simon

Office of the Legislative Auditor

Limited Scope Study of Accounting and Management Support Division's Comprehensive Annual Financial Report Preparation Procedures

Department of Administration

Members of the audit staff involved in this study were: Jody Brandt, Maureen Leo, Emy Neuman-Javornik, Lorry Parriman, and Kris Wilkinson.

STATE OF MONTANA

Office of the Legislative Auditor



STATE CAPITOL
PO BOX 201705
HELENA, MONTANA 59620-1705
406/444-3122
FAX 406/444-3036

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

May 1995

To the Legislative Audit Committee
of the Montana State Legislature:

This is our limited scope study of the Department of Administration, Accounting and Management Support Division's Comprehensive Annual Financial Report (CAFR) preparation procedures. Based upon the results of our study we make four recommendations to the division concerning complete and accurate accounting records, timeliness of agency financial information, recording information on the accounting records in accordance with generally accepted accounting principles, and additional procedures to ensure a complete and accurate CAFR. Division officials written response to the recommendations is included beginning on page 15.

We thank the department director, division administrator and her staff for their assistance and cooperation during our study.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

Table of Contents

	Summary of Recommendations	iii
Introduction	Background	1
Issues and Recommendations	Incomplete or Erroneous Information Recorded on SBAS by Agencies	3
	Routine Adjustments	4
	Repeat Errors at Agencies	4
	Summary	5
	Timeliness of Financial Information From Agencies	6
	Adjustments for GAAP Entries Not Made on SBAS	8
	Additional Procedures Needed by Accounting and Management Support Division	10
Division Response	Accounting and Management Support Division	15

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the division's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the division:

- A. Review and identify routine adjustments made in preparing the previous CAFR.
- B. Develop procedures to assist agencies in recording complete and accurate financial information on SBAS by fiscal year-end in accordance with state law.
- C. Provide additional technical assistance and training to agency personnel to help ensure the accounting records are complete and accurate. 6

Division Response: Concur. See page 16.

Recommendation #2

We recommend the division include in its memorandums to state agencies due dates for information which are in advance of the fiscal year-end period to ensure that all required accounting information is recorded on the state's accounting records prior to fiscal year-end. 8

Division Response: Concur. See page 17.

Recommendation #3

We recommend the division:

- A. Eliminate duplicate financial information on the accounting system.
- B. Develop accounting procedures and necessary control accounts for use by agencies to properly record information on SBAS. 10

Division Response: Partially Concur. See page 17.

Recommendation #4

We recommend the division develop additional procedures to ensure financial information presented in the CAFR is accurate and complete. 12

Division Response: Concur. See page 18.

Introduction

Background

The governmental accounting standards board (GASB) promulgates standards of financial accounting and reporting for state and local governmental entities. The standards require governmental entities, such as the state of Montana, to prepare and publish, as a matter of public record, a comprehensive annual financial report (CAFR) that encompasses all funds and account groups of the entity. The CAFR contains the general purpose financial statements (GPFS), including notes thereto, and combining statements, appropriate schedules, narrative explanations, and statistical tables. According to governmental standards, it should be prepared and published promptly after the close of the fiscal year and contain the independent auditor's report.

The state of Montana may also issue the GPFS in a document separate from the CAFR. The GPFS include the financial statements and notes to the financial statements that are essential to fair presentation of financial position and results of operations. The GPFS may be included in official statements for bond offerings and distributed to users requiring less detailed information about Montana's finances than is contained in the CAFR.

The Department of Administration's Accounting & Management Support Division (division) prepares the CAFR for the state of Montana. After the first CAFR was prepared in 1984, the 1985 Legislature amended state law to require the financial information recorded on the state's primary accounting records by agencies to be in compliance with generally accepted accounting principles (GAAP). Section 17-1-102, MCA, states all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all monies for which the agency is accountable in accordance with GAAP. Section 17-1-102, MCA, also states the Department of Administration shall establish a system of financial control so that the functioning of the various agencies of the state may be improved, duplication of work by different state agencies and employees eliminated, public services improved, and the cost of government reduced.

To prepare the CAFR the division uses the financial information recorded on the Statewide Budgeting and Accounting System

Introduction

(SBAS). The division issues various memorandums to state agencies requesting information necessary to prepare the CAFR. These memorandums contain guidance on the type of information required by the division and deadlines for the information to be submitted to the division. After the close of the fiscal year the division obtains a report of accounting information from SBAS that is compiled into the CAFR format. The division then makes approximately 24 different types of adjustments to this report and uses the resulting information to prepare the CAFR. These adjustments include agreeing information between the previous and current CAFR, correction of errors or incomplete information recorded by agencies on SBAS, and compiling note disclosures.

The state of Montana has received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association for the last seven years. This certificate is awarded to government units whose comprehensive annual financial reports achieve the highest standards in government accounting and financial reporting. The Office of the Legislative Auditor (office) has completed the annual statewide audit of the information presented in the CAFR since 1984. As a result of issues and concerns related to the preparation and timeliness of the CAFR, our office determined a review of the CAFR preparation procedures developed over the years was warranted. The following are areas we identified during our review that could further improve the CAFR process.

Issues and Recommendations

Incomplete or Erroneous Information Recorded on SBAS by Agencies

We reviewed the adjustments made by the division to the financial information recorded on SBAS and determined many of the adjustments resulted from incomplete or erroneous information recorded by agencies. Section 17-1-102(5), MCA, requires all state agencies to input all transactions to the accounting system before accounts are closed at the end of the fiscal year to present the receipt, use and disposition of all monies in accordance with GAAP. The division issues a management memorandum each year that includes general instructions for recording transactions on SBAS by fiscal year-end in accordance with GAAP. The division also sends a memorandum to all state agencies every year to notify the agencies of the CAFR preparation schedule. This memorandum is intended to assist each agency in coordinating with the division during the CAFR process.

One section of the CAFR memorandum states the division staff will contact agencies during August to resolve items such as negative control account balances, balances in uncleared collection accounts, agency funds with fund balances or deferred revenue, and "due to" and "due from" control accounts that do not balance. According to division personnel, the fiscal year-end memorandum addresses the recording of these items by fiscal year-end while the CAFR memorandum follows up on errors remaining after fiscal year-end. In order to facilitate compliance with state law, additional assistance should take place prior to closing the state's books for agencies which do not record transactions in accordance with the general instructions memorandum.

During the review of adjustments made during the CAFR preparation process we noted that adjustments generally occur in two different situations. One relates to adjustments that occur year after year because procedures have not been corrected to eliminate the need for the adjustments. The other relates to errors on the accounting records that continue year after year where the division has not followed up with the specific agency prior to fiscal year-end to ensure the error does not continue. The following sections describe these types of adjustments that have been necessary to prepare the CAFR.

Issues and Recommendations

Routine Adjustments

We found several CAFR adjustments are routinely made year after year. They are made in lieu of correcting the accounting records before fiscal year-end. The following are examples of these adjustments:

1. The governmental, proprietary, and fiduciary funds had adjustments to fund balance changing the designation between reserved and unreserved. The determination of whether fund balance should be reserved is limited to indicating that a portion of the fund balance is not available for expenditure or is legally segregated for a specific future use. Agencies should determine and record designations of fund balance on SBAS before the books close at fiscal year-end.
2. In preparing the CAFR, each accounting entity on SBAS is included in a combining fund. There have been instances where accounting entities were included in one fund on SBAS but moved to a different fund classification on the CAFR. If the accounting entities should be classified in a different fund this change should be made on SBAS. If the reclassification for the CAFR results from statutory requirements, the division should seek a change in the statute to correct the accounting entity fund classification to comply with GAAP.
3. Another reoccurring adjustment relates to recording state and federal revenue in internal service funds. The revenue is recorded by the agencies as federal indirect cost recoveries regardless of the source of funds. As a part of the preparation of the CAFR the division adjusts the classification of a portion of the revenue from federal indirect cost recoveries to charges for services. In fiscal year 1993-94, over \$1.5 million of internal service fund revenue was misclassified on SBAS. Agencies should correctly record this revenue by funding source on SBAS prior to fiscal year-end.

Repeat Errors at Agencies

We noted several of the CAFR adjustments related to agency errors in recording activity on SBAS. The following are examples of these errors.

1. Adjustments exceeding \$38 million in fiscal year 1993-94 were required for one agency due to incomplete or incorrect accounting records. This agency has not completely recorded its financial information on SBAS by fiscal year-end for several years, resulting in several adjustments being made by the division each year.

2. We found agencies occasionally do not record contingencies on SBAS. A contingency is an existing condition that may, through a future event, result in the loss or acquisition of an asset or incurrence or avoidance of a liability.
3. Several agencies failed to properly record leases and installment purchases, long-term debt, fixed assets, and deferred compensation on SBAS. In one instance, an agency had not recorded leases properly on SBAS in the prior year. The division notified the agency of the adjustments necessary; however, the agency still did not record the proper amounts for leases during the current year. In fiscal year 1993-94, the division made adjustments totalling approximately \$1.2 million relating to leases and installment purchases; \$66 million relating to long-term debt; \$8 million relating to fixed assets; and \$5,000 relating to deferred compensation.

Summary

Some agencies are allowed to make adjustments to the information recorded on SBAS in preparing their financial statements. For example, the universities, retirement systems, and the state compensation insurance fund prepare financial statements with adjustments that are included in their annual reports. Agencies may not ensure that the accounting records are correct by fiscal year-end since an adjustment can be made in preparing the financial statements. There is no incentive to ensure the accounting records are correct if an agency is allowed to make the same adjustments year after year rather than correctly recording the information on SBAS by fiscal year-end.

Adjustments may have been necessary when the state began preparing the CAFR, however, the division should review adjustments made in previous years and establish procedures to ensure routine adjustments are recorded on SBAS by fiscal year-end. Ensuring SBAS information is correct by fiscal year-end could significantly reduce time spent by division personnel in preparing the CAFR.

According to division personnel, new agency staff, lack of agency staff, lack of appropriate training of agency staff, and use of incorrect accounting procedures result in untimely, incorrect, or incomplete recording of financial activity on SBAS. One of the responsibilities of the division is to provide technical assistance to state agencies. Technical assistance could include training agency

Issues and Recommendations

accounting personnel to ensure required information is recorded on SBAS by fiscal year-end. The division does provide technical assistance by providing written instructions in its memorandums.

The division should continue to work with agencies to determine specific training needs to ensure all transactions are appropriately recorded on SBAS by fiscal year-end. Based on the number and frequency of adjustments necessary to prepare the CAFR, the division should identify specific agencies and areas to focus training efforts. If the division is aware of employee turnover or employee shortages in an agency, or unique accounting situations at an agency, it could target its efforts to these situations.

Recommendation #1

We recommend the division:

- A. Review and identify routine adjustments made in preparing the previous CAFR.**
- B. Develop procedures to assist agencies in recording complete and accurate financial information on SBAS by fiscal year-end in accordance with state law.**
- C. Provide additional technical assistance and training to agency personnel to help ensure the accounting records are complete and accurate.**

Timeliness of Financial Information From Agencies

According to section 17-2-110, MCA, at the close of each fiscal year, each state agency shall prepare such financial statements and reconciliations for the fiscal year as the Department of Administration (department) may prescribe. These financial reports are to be completed and distributed not more than 31 days following the close of each fiscal year. The reports are to be distributed to the department and the Legislative Auditor and any other state agency the department may prescribe. Currently, the only reports prescribed by the department are the information recorded on

Issues and Recommendations

SBAS. This law could be used to ensure timeliness of financial information from the agencies for use in the CAFR preparation.

Also, section 17-2-109, MCA, provides that all officers, employees, and other persons connected with the fiscal affairs of any state agency must make reports relating to such fiscal matters to the department in a form that the department shall prescribe. If an officer or employee refuses or neglects to comply with this section, their salary shall be withheld by the department until they comply with the section.

The most recent general instructions for year-end and the CAFR schedule memorandum submitted in May and June, respectively of 1994, included deadlines for receipt of information as late as October 1st. The CAFR memorandum also stated the CAFR process follows fiscal year-end and continues through October, which implies adjustments are allowable through October. In addition, in the memorandums the division requests submission of any adjustments or corrections to the Net Investment in Plant subfund by August 31. There should not be a specific reference to obtaining adjustments since this implies that the agencies do not need to record the information correctly on the accounting records by fiscal year-end.

The division also submitted memorandums requesting financial information concerning leases, compensated absences, and commitments that were dated May 12, July 1, and July 29 of 1994, respectively. The deadlines for submitting the information to the division was August 19, 1994. This type of information should be available before fiscal year-end based on the agency's knowledge of its activity. The risk management section of the CAFR schedule memo states that if an actuary is used to evaluate a public entity risk pool fund, the agency should contact the actuary to ensure the required information is provided. The due date in the memorandum for this information was August 31. If risk management information from actuaries is necessary, contact with the actuary and resulting accounting estimates should be available prior to fiscal year-end.

Issues and Recommendations

The memorandums are good tools for agencies to use as a reminder during the fiscal year-end period of the items needed to be recorded on SBAS and to prepare the CAFR. Based on the laws that require financial information be recorded on the accounting records by fiscal year-end in accordance with GAAP and requiring that any financial information prescribed by the department be submitted on a timely basis, the time frame for reporting this information should be shortened. Additionally, we believe more timely discussions by division staff with management of selected agencies is necessary when it is apparent there will be delays in obtaining the financial information from these agencies.

One of the requirements to obtain the Certificate of Achievement for Excellence in Financial Reporting is timeliness of the CAFR issuance. The report must be submitted within 180 days after the end of the fiscal year. Timely receipt of financial information from the agencies would help ensure timely CAFR issuance.

Recommendation #2

We recommend the division include in its memorandums to state agencies due dates for information which are in advance of the fiscal year-end period to ensure that all required accounting information is recorded on the state's accounting records prior to fiscal year-end.

Adjustments for GAAP Entries Not Made on SBAS

In order to present the financial information in accordance with GAAP, the division makes adjusting entries to prevent financial information from being included in the CAFR twice. For example, one agency may record activity, such as an inter-entity loan between two accounting entities, that for CAFR purposes are included in the same fund. The elimination adjustment ensures the financial statements for the state as a whole are not overstated.

Other examples of information that must be eliminated include inter-entity advances, cash entries, and investment activity. From discussions with division personnel we determined several of the

Issues and Recommendations

GAAP adjustments could be completed automatically on SBAS. For example, SBAS could include accounts that accumulate GAAP adjustments when combining all state agencies accounting information. This would enable the division to eliminate duplicate information that occurs between agencies when preparing the CAFR. The division has been reluctant to modify SBAS to generate these adjustments since they believe the manual adjustments currently used take a limited amount of staff time. Since the division already generates certain transaction reports from the accounting records to determine the necessary elimination adjustments, it could use this as a base to generate the adjustment in the accounting records.

Division staff also indicated some of the adjustments could be recorded on SBAS by agencies. For this to occur the division would have to create additional control accounts. For example, in fiscal year 1993-94, due to the issuance and implementation of a new accounting standard the division was required to identify and separately report and disclose certain financial information. The division manually reviewed SBAS transactions to identify this activity and made 68 adjustments to the CAFR information totaling over \$44 million. In the future, this same information could be compiled using SBAS if the agencies were required to record these transactions by using control accounts specific to this activity.

In addition, every year adjustment information is needed from the university units to record the acquisition and disposal of long-lived assets and debt incurred or retired in the Investment in Plant Fund. These adjustments totalled several million dollars in fiscal year 1993-94. The division should establish a mechanism on SBAS, such as specific revenue and expenditure control accounts, to track this activity on the state's accounting records so the adjustment is no longer necessary.

Issues and Recommendations

Recommendation #3

We recommend the division:

- A. Eliminate duplicate financial information on the accounting system.
- B. Develop accounting procedures and necessary control accounts for use by agencies to properly record information on SBAS.

Additional Procedures Needed by Accounting and Management Support Division

The division compiles financial information for preparation of the notes to the financial statements. The notes present detailed information on aspects of the financial statements including risk management, accounting policies and cash and investments.

As part of the CAFR preparation, the division obtained information regarding any related party transactions that may need to be included in the financial statements. Currently, the division only requests information from the university units relating to its affiliated organizations for possible note disclosure. The division obtains no written evidence of related party information from other agencies. During audits of the agencies, written management representation is obtained that related party transactions have been properly recorded or disclosed in the financial statements. Therefore, agencies should understand related party transaction disclosures and provide this information to the division. Without written procedures to request a response from all agencies concerning related party transactions, it is possible the division could fail to include a significant disclosure in the notes to the financial statements.

The division includes financial information in the CAFR from several state agencies which prepare their own financial statements. The division does not compare the information they compile to the information presented in the agency's financial statements. As a result, the CAFR and the agency's financial statements could be

Issues and Recommendations

different. For example, during the fiscal year 1993-94 CAFR preparation, it was noted significant differences existed between the financial information presented for an agency in the CAFR and the information presented on the agency's audited financial statements. The information presented in the CAFR had to be adjusted to reflect the information contained in the audited financial statements. Division personnel indicated in the past the financial statements of the agencies have not been issued prior to the printing of the CAFR. If the Department of Administration prescribed these financial statements and requested receipt of the reports in a timely manner, as discussed on page six, the financial statements should be completed in time for use in preparing the CAFR.

The division should consider if recording information on the accounting records could be done in a more efficient manner. For example, the Department of Administration maintains the central payroll system for state agencies. State agencies are issued a report from central payroll which is used to record compensated absences information on SBAS, absences for which employees will be paid, such as vacation or sick leave. During the last fiscal year-end period, division personnel spent approximately 20 hours assisting various agencies to ensure the proper entries for the compensated absences were recorded on SBAS. We noted interaction with agency personnel prior to the close of the fiscal year-end period greatly reduced the adjustments to the compensated absences information. Since the division can obtain a report for all agencies, it may be more efficient for the division to make the compensated absences entries for each agency using the central payroll information. The division would be able to ensure the entries were correctly made in a timely manner for all agencies.

The division should establish additional procedures to ensure financial information contained in the CAFR is complete and accurate. These procedures could include:

1. Comparing financial information in the CAFR to individual agency's financial statements.
2. Considering areas where it would be more efficient for the division to record the necessary information on SBAS rather than each individual agency.

Issues and Recommendations

Recommendation #4

We recommend the division develop additional procedures to ensure financial information presented in the CAFR is accurate and complete.

Division Response

DEPARTMENT OF ADMINISTRATION

DIRECTOR'S OFFICE



MARC RACICOT, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032
FAX: 444-2812

PO BOX 200101
HELENA, MONTANA 59620-0101

May 8, 1995

Mr. Scott Seacat
Legislative Auditor
Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620



Dear Mr. Seacat:

We have reviewed the recommendations pertaining to the Limited Scope Study of Accounting and Management Support Division's Comprehensive Annual Financial Report Preparation Procedures dated April 1995. We welcomed the review of preparation procedures that had been used for the past ten years by the Accounting and Management Support Division of the Department of Administration to prepare the Montana Comprehensive Annual Financial Report (CAFR). As indicated in your report, the CAFR has received the Governmental Financial Officers' Association Certificate of Achievement for Excellence in Financial Reporting for the past seven years.

This study provides us with the opportunity to make changes to the fiscal year-end (FYE) and CAFR procedures that will make the process of preparing the CAFR more efficient and help to ensure that financial information reported on the Statewide Budgeting and Accounting System (SBAS) is complete and accurate. Unless specified otherwise in the discussion below, the corrective action taken will be made during the FYE95 process and in preparing the FY95 CAFR.

Our response to each recommendation follows:

RECOMMENDATION #1

WE RECOMMEND THE DIVISION:

- A. **REVIEW AND IDENTIFY ROUTINE ADJUSTMENTS MADE IN PREPARING THE PREVIOUS CAFR.**

- B. DEVELOP PROCEDURES TO ASSIST AGENCIES IN RECORDING COMPLETE AND ACCURATE FINANCIAL INFORMATION ON SBAS BY FISCAL YEAR-END IN ACCORDANCE WITH STATE LAW.**
- C. PROVIDE ADDITIONAL TECHNICAL ASSISTANCE AND TRAINING TO AGENCY PERSONNEL TO HELP ENSURE THE ACCOUNTING RECORDS ARE COMPLETE AND ACCURATE.**

Response:

We concur. The division is currently reviewing procedures and will include information in its FYE Management Memo to have agencies include on SBAS such routine adjustments as those for the reservation or designation of fund balance. Other changes include contacting specific agencies to work with them to correct procedural errors on SBAS before FYE which will eliminate certain other routine adjustments. The division will continue to complete those routine adjustments that relate to the financial reporting process only.

To assist agencies in recording complete and accurate information on SBAS, the division currently provides the following: management memos providing detailed information and policy direction on specific accounting issues; technical assistance on a regular, usually daily, basis to most agencies; specific training on an as needed basis to agencies requesting it; assistance to agencies as a followup to audit recommendations; and detailed accounting transaction information in the FYE management memo to remind them of the transactions that need to be on SBAS by FYE. In addition, the division provides each agency with a list of errors found during the CAFR process and requests the errors be corrected in SBAS. The agencies must provide the division with a copy of the document correcting the error prior to FYE. The division provides assistance to the agency when requested. Although an agency may have errors year after year, they are generally different errors each year.

The division believes it is the agencies' responsibility to ensure the information in SBAS is complete and accurate. However, we also feel we can be more proactive in working with and assisting agencies in this area. We will contact those agencies that have had errors on a regular basis and offer specific technical assistance and/or training to them to try to eliminate routine accounting errors. We have requested certain schedules be prepared prior to FYE so that we can tie out information on the schedules to SBAS and inform agencies prior to FYE of adjustments they must make. Management memos will reflect the need to provide complete and accurate information in SBAS prior to FYE. The division will prepare management memos on specific accounting issues and new GAAP statements and distribute them to agencies in June to provide additional direction and assistance in preparing FYE accounting transactions.

RECOMMENDATION #2

WE RECOMMEND THE DIVISION INCLUDE IN ITS MEMORANDUMS TO STATE AGENCIES DUE DATES FOR INFORMATION WHICH ARE IN ADVANCE OF THE FISCAL YEAR-END PERIOD TO ENSURE THAT ALL REQUIRED ACCOUNTING INFORMATION IS RECORDED ON THE STATE'S ACCOUNTING RECORDS PRIOR TO FISCAL YEAR-END.

Response:

We concur. Each year the division issues a FYE Management Memo providing information and deadlines for accounting transactions that must be in SBAS prior to FYE. In addition, the division issues various memos relating to the CAFR process. These memos provide information and deadlines for schedules and disclosure information needed for completing the state's financial report. The information needed is generally a summation of FYE information and is not available until after SBAS closes. However, by not requiring certain disclosure information or schedules until after FYE, the division may have to do more work to reconcile the financial information provided by the agencies with SBAS and errors may not be discovered on a timely basis.

The division is issuing its CAFR memos in May prior to FYE. In both the FYE Management Memo and the subsequent CAFR memos, due dates related to information needed to ensure financial activity is recorded on SBAS properly have been moved up to June 30, prior to the start of the FYE period. The division targeted specific agencies with special reporting problems and will work with them to ensure accounting transactions and estimates are input on SBAS on a timely basis. Management memos and letters to targeted agencies will emphasize the necessity of complying with these deadlines and accounting policies.

RECOMMENDATION #3

WE RECOMMEND THE DIVISION:

- A. ELIMINATE DUPLICATE FINANCIAL INFORMATION ON THE ACCOUNTING SYSTEM.**

Response:

We do not concur. The elimination of intrafund accounting transactions is a result of rolling together individual agency accounting information for financial reporting purposes only when preparing the CAFR. The information on SBAS is correct since it is reported by individual accounting entity and agency and is not combined until the CAFR is prepared. The division has developed the procedures and schedules to separately accumulate and prepare these transactions without affecting the individual accounting entities within SBAS. The division will continue to prepare these

schedules outside of SBAS until such time as SBAS is redesigned to provide cumulative information and reports. Consideration of such a proposal will be included in a study of SBAS and the state's financial systems in the next biennium.

B. DEVELOP ACCOUNTING PROCEDURES AND NECESSARY CONTROL ACCOUNTS FOR USE BY AGENCIES TO PROPERLY RECORD INFORMATION ON SBAS.

Response:

Partially concur. The division feels it is more efficient with the current system for the division to make the adjusting entries during the CAFR process to separate transactions between component units and the primary government. Again, this is primarily a financial reporting problem, not a problem of reporting activity in SBAS incorrectly. However, we will review the process and determine if the separation of transactions could be done by agencies on SBAS without significantly increasing the agency's workload or possibly significantly increasing transaction error rates. This will be done within the scope of the study of SBAS and the state's other financial systems in the coming biennium.

The Office of the Commissioner of Higher Education is working on the issue of university units recording transactions to the Investment in Plant Fund within SBAS. The division will discuss this issue with that office and the university controllers in May.

RECOMMENDATION #4

WE RECOMMEND THE DIVISION DEVELOP ADDITIONAL PROCEDURES TO ENSURE FINANCIAL INFORMATION PRESENTED IN THE CAFR IS ACCURATE AND COMPLETE.

We concur. The division will issue management memos on new accounting policy issues in June to provide assistance and direction to agencies in the areas of separate GAAP financial reporting, reservations and designations of fund balance, determination of component units and affiliated organizations (when available) and related party transactions. The division will specifically request this information from each agency during the upcoming CAFR process.

The division has discussed the issue of separate GAAP financial statements with those agencies that issue them and is requesting copies of those unaudited statements by mid-September to reconcile those statements with the CAFR. The division is working with the Office of the Commissioner of Higher Education and will meet with the university units in May to inform them of this change and to discuss the Net Investment in Plant entries they will need to incorporate into SBAS this year.

Again, the division believes it is the agency's responsibility to ensure information recorded on SBAS is complete and accurate. Generally, the agency has a better understanding of its particular accounting structure and should prepare the accounting transactions it needs for its operations. Additional assistance was provided to agencies (for a total of six hours) in the case of the compensated absences entry this past year primarily due to implementing a change in GAAP.

The CAFR has always been accurate and complete since it has received unqualified opinions from the Legislative Auditor's Office annually for the past seven years. The division appreciates the study of its procedures by the Legislative Auditor's staff and the resulting recommendations. The division has attempted to incorporate many of the suggestions in its current FYE and CAFR process to improve its operations and to continue to receive unqualified opinions.

Thank you for the opportunity to respond to your report recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Lois Menzies". The signature is fluid and cursive, with a long horizontal line extending from the start.

Lois Menzies
Director

